Genesco Inc.
Annual Report 1979

CLEVELAND PUBLIC
BUSINESS INF. BUR.
CORPORATION FILE

Laying the Foundation For the 1980's

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Description of Business

Genesco is a manufacturer, distributor and retailer of footwear and men's apparel. Through its network of 1,140 stores and leased departments throughout the United States and Canada, the company's divisions sell footwear to men, women and children. The company makes many of its own footwear products, imports others, and purchases some from other domestic manufacturers. In addition to supplying its own shoe stores, the company makes a substantial volume of shoes for other customers. Genesco is one of the largest shoe manufacturers in the United States.

Genesco men's apparel divisions produce tailored clothing, jeans and slacks primarily for other customers, but also sell some products through the company's own specialty stores in 7 metropolitan areas in the United States.

The company also operates a chain of variety stores, and in fiscal 1979 entered the drug store business.

Clothing and shoes are one of the three basic necessities of life, and a large number of companies throughout the world compete vigorously to supply this market. Business fluctuates with the seasons, and sales and earnings are historically higher in the fall and winter months.

All of Genesco's manufacturing plants, warehouses and stores are located in the U. S. and Canada. The company has approximately 26,500 employees. Exports are an insignificant percentage of its sales volume.

Corporate Office
Genesco Park
Nashville, Tennessee 37202
615 367-7000

Cable Address
GENCORP Nashville

Telex Number
Nashville, Tennessee 55 4423

Transfer Agents
Common Stock and Preferred Stock
First American National Bank
Nashville, Tennessee 37237
Morgan Guaranty Trust Company
New York, New York 10004

Independent Accountants
Price Waterhouse & Co.
Nashville, Tennessee 37238

Annual Stockholders Meeting
Monday, December 3, 1979

Form 10-K
Each year Genesco files with the Securities and Exchange Commission a Form 10-K report which contains more detailed information. If you would like to receive a copy, please send your request to:
Manager, Corporate Information Services
Genesco Inc.
Genesco Park Room 234
Nashville, TN 37202

Registrars
Common Stock and Preferred Stock
Chemical Bank
New York, New York 10015
Third National Bank
Nashville, Tennessee 37244

New York Stock Exchange Symbol
GCO

Genesco is an equal opportunity employer.

Financial Highlights

Years ended July 31	**1979**	1978
Net sales	**$992,925,000**	$1,048,351,000
Operating income—ongoing operations	**4,943,000**	21,441,000
Net earnings	**6,332,000**	14,936,000
Primary earnings per common share	**$.22**	$.90

Report to Stockholders

John L. Hanigan
Chairman

The belief we expressed in your last annual report that the reserves set up at the end of fiscal 1977 were adequate to cover all related contingencies has been borne out by subsequent events. I'm happy to report to you that we were able to restore $17.9 million of those reserves to income at the end of fiscal 1979.

Earnings in fiscal 1979 were adversely affected by the closing of four footwear plants, the closing of 47 variety stores and providing for additional closings, the closing of the men's pajama and underwear business, the loss on the sale of L. Strauss plus miscellaneous small losses, offset by the profit from the disposal of Bonwit Teller and Plymouth Shops. In total, these non-operating losses and gains taken together with the reversal of the reserve had a positive effect of $6,977,000 on the bottom line.

The cash effect of these changes on your company was a positive cash flow resulting in a $78.9 million reduction in short term debt in 1979.

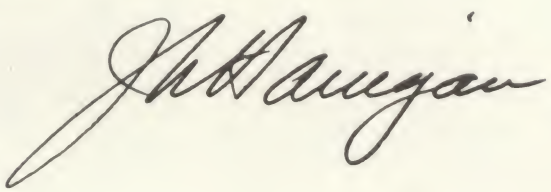
In addition, $10,134,000 was paid on the company's long term debt, even though such debt appears to be higher on the balance sheet. This is explained in the footnotes to the financial statements.

So much for the past.

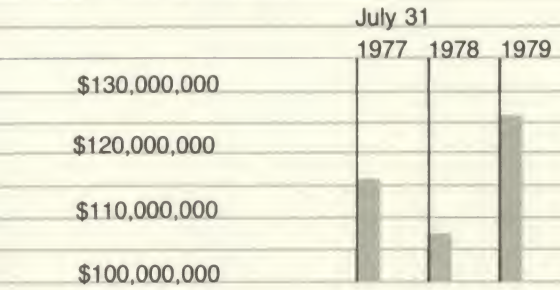
Our future strategy is to continue to evaluate all segments of our business to make sure that the return on assets employed meets our criteria of 25% pretax.

Our internal growth will come for the present mainly from opening new retail shoe stores and updating existing stores. By this strategy, we will eventually be able to furnish our shoe manufacturing plants with a solid base of production which will permit better planning plus the efficiencies which come with high volume production. We will, of course, continue importing shoes both for resale to others and through our own stores.

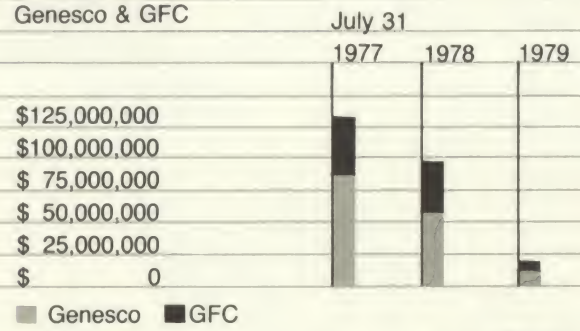
In other words, our strategy is to become as market-oriented in our main business—shoes—as we have been in some of our other businesses, such as tailored clothing.



Working Capital



Short-term Debt



Laying the Foundation For the 1980's

In fiscal 1979, Genesco made substantial progress toward the goal set by its chairman, John L. Hanigan: "fixing the balance sheet." By divesting certain assets, the company generated enough cash to sharply reduce its debt load to more manageable proportions.

A look at the size of Genesco's debt load at the end of fiscal 1978 reveals the need for this approach. The company's total debt at that time represented 80% of the company's capitalization, an excessive percentage.

The clear need was to reduce this overload of debt while building equity through earnings. In order to meet this need, management began in fiscal 1977.

1
to analyze the company's operations to determine where the assets employed were not generating a sufficient return and did not appear to have the potential to do so, or where the assets were employed in operations which did not fit the company's plans;

2
to turn these assets into cash by selling them; and

3
to use this cash to reduce the company's debt and to build a foundation for future growth.

William S. Wire II
Vice President—
Finance
and Treasurer

According to William S. Wire II, Genesco's vice president—finance and treasurer, the net effect of this effort is a substantially improved financial position, which can be seen by comparing the July 31 balance sheets for 1978 and 1979. For example:

1
Genesco's working capital (current assets less current liabilities) has increased by $17.7 million, from $107,341,000 to $125,052,000.

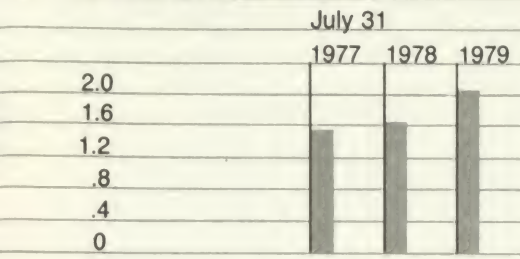
2
Genesco's short-term debt has shrunk from $61,850,000 to $12,000,000, a reduction of $49,850,000.

3
The company's ratio of current assets to current liabilities has improved from 1.6 to 2.1.

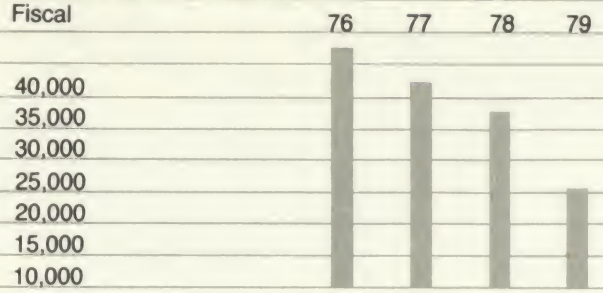
At the same time, the short-term debt of Genesco Financial Corporation, the company's wholly owned finance subsidiary, dropped $29 million from $34 million. This was due primarily to collection or sale of receivables of operations that were divested and whose receivables had been sold to Genesco Financial Corporation.

Additionally, the divestment of Charles Jourdan, a French based shoe operation, enabled Genesco to pay off all of the approximately $7 million of bank debt of the nonconsolidated subsidiary which had owned Jourdan.

Ratio of current assets to current liabilities



Total Employment



The divestments which accomplished this financial improvement took place in two phases. Phase I, begun at the end of fiscal 1977, included the divestment of 22 divisions which did not fit in with the company's long-range plans. Included were 16 divisions making women's and children's apparel. By the end of fiscal 1979, all but one of these operations had been sold or closed, and the reserve originally established had proven more than adequate to cover all costs. Accordingly, $17.9 million of that reserve was taken into income in the fourth quarter of fiscal 1979.

Phase II was a second screening of the company's ongoing operations. This screening was to sift out those operations which did not earn or show the potential to earn the 25% pretax return on assets employed which Mr. Hanigan had set as the corporate standard.

The sale of Bonwit Teller is a good illustration. Despite a well-known name, Bonwit consistently operated at a loss. By packaging it with Plymouth Shops, a profitable New York based chain of women's specialty stores, Genesco was able to turn the assets into cash, rid itself of a money-losing operation, and free up a substantial amount of working capital. And by selling Bonwit's New York City real estate separately, the company was actually able to generate a profit on the divestment of the two divisions.

Genesco Consolidation Program

Phase I	Phase II
Sold or closed 15 of 16 women's and children's apparel manufacturing operations.	**Sold or closed:**
Sold or closed 6 other operations.	**11 divisions**
	11 plants
	129 stores

Phase II screened other areas as well. In addition to disposing of divisions, the company closed 11 plants, provided for closing a number of variety stores, and discontinued several sales divisions. The Footwear Sector was reorganized, and corporate and divisional staffs were shrunk. The corporate offices in New York City were closed, and those in Nashville were consolidated into another existing facility. The old offices in both New York and Nashville were subleased.

Footwear Sector Consolidation

Sold Charles Jourdan
Closed 4 manufacturing plants
Discontinued branded children's footwear

George Langstaff
Executive Vice President
General Manager—
Footwear Sector

While contraction and consolidation were underway in many areas, growth and expansion took place in others. The most significant growth area is footwear retailing, where a major program of opening new stores and remodeling existing units is now in full swing. Footwear retailing has, over the years, produced a rate of return in excess of the company's benchmark. Johnston & Murphy, Jarman, Flagg, Hardy, Bell Bros., and Cover Girl in the U. S. and Aggies, Agnew, and Dexter in Canada are all participating in the retail expansion program.

Of equal significance is the reorganization of the Footwear Sector which took place in fiscal 1979. Formerly, the manufacturing, wholesale and retail operations of the Footwear Sector were organized as separately managed functions. Under the new structure, operations serving related markets are combined with their own manufacturing capacity to form eight separate profit centers. For example, the men's popular priced group includes two wholesale brands, two retail chains, and three manufacturing facilities. This organization structure permits greater flexibility, establishes clear responsibility for results, and places greater emphasis on marketing.

This greater emphasis on marketing has already led to some significant changes in strategy. For example, Bell Bros., a chain of family shoe stores, took two of its locations, cut the size of each store in half, remodeled, and offered only men's and women's styles. The result has been dramatic sales increases. This new concept is being implemented in other suitable locations as rapidly as possible.

Other marketing efforts include the introduction of Oleg Cassini label shoes by Jarman and the development and expansion of factory outlet stores. Bolstering these and other efforts is the creation of a marketing capability at the sector level.

One of the brightest areas in the Footwear Sector has been the performance of the Canadian operations. Over the last 4 years, these operations as a whole have turned in performances above the company's standard of performance. Dan W. Gregory, deputy general manager of the Footwear Sector and former general manager for Canadian operations, notes that the retail operations have had excellent locations and a consistently "right" product mix. Manufacturing and wholesale operations in Canada have also made excellent progress.

On the other hand, during fiscal 1979 the company took a careful look at its sales of private label footwear to volume chains. "We made the decision to pass some business where we did not have the opportunity to make an acceptable return," says George Langstaff, general manager of the Footwear Sector. As a result of the lost volume, it was necessary to close several plants and reduce the work force in this area. The costs relating to this transition were the largest single factor in the Footwear Sector's earnings decline in fiscal 1979.

Despite the reduction in 1979, there are still significant opportunities for business in the private label area. Genesco will continue to pursue these opportunities when they offer a chance to make an acceptable return on the required investment.

Dan W. Gregory
Vice President
Deputy General
Manager —
Footwear Sector

In summarizing the Footwear Sector in fiscal 1979, Mr. Langstaff noted, "The reorganization has settled in, and our people fully understand what is expected of them. We have made significant reductions in the scope of our operations. We have completed the switch to a new standard cost accounting system. Our retail expansion program is in high gear, and we have begun a statistical quality control program to improve the quality and reduce the cost of our products. Through the corporate Human Resources department, we now have a number of management training programs geared to our specific needs.

"All these things will help us to meet the challenges and opportunities we face in fiscal 1980 and beyond."

Men's Apparel Sector Consolidation

Combined Haywood and Harpeth Apparel; reduced plants from 11 to 6.

Disposed of Underwear and Pajama Business

Larry B. Shelton
Executive Vice President
General Manager—
Men's Apparel Sector

Significant contraction also occurred in the Men's Apparel Sector. In fiscal 1979, Genesco took steps to divest its men's underwear and pajama divisions. Neither had been profitable.

In the ongoing operations, the tailored clothing area produced good earnings improvement. Both Greif and Co. and Phoenix introduced new brands in fiscal 1979 which were well received. Greif added two prestigious British labels—Kilgour, French & Stanbury, English custom tailors, and Aquascutum of London—to go with its four "Living Labels": Lanvin, Donald Brooks, Chaps by Ralph Lauren, and Lord Churchill. One measure of the success of Greif's branded programs is the fact that the orders received for the Fall 1979 season are equal to the shipments for the entire fiscal year 1976, when Greif first initiated its "Living Labels."

Phoenix's introduction of the Oleg Cassini line, designed for the urbane, sophisticated customer, has produced twice the projected volume of orders. Phoenix also offers Hardy Amies, a contemporary line aimed at the younger man, and the Phoenix label, a "fashion shouldered" look. In addition, Phoenix broke ground for a new, one-story plant near Allentown, Pennsylvania. The new facility, replacing several old buildings now leased in Allentown, will produce substantial savings and permit greater efficiency and flexibility in serving Phoenix's customers.

According to Larry B. Shelton, general manager of the Men's Apparel Sector, "both Greif and Phoenix have been able to increase their market share as a result of the success of their branded programs."

Unfortunately, the gains from tailored clothing were more than offset by losses in the jeans area. The MALE division attempted to move away from jeans, its traditional strength, into sportswear during fiscal 1979. Intense competition and poor customer acceptance foiled this effort. Accordingly, MALE has retrenched and is again emphasizing its fashion jeans lines.

Like many companies making private label goods for the national chains, the Haywood division suffered a decline in sales in fiscal 1979. This division went through a consolidation and a restructuring of its plants from 11 to 6 and began a major engineering and equipment update of its remaining plants. Haywood will also consolidate its administrative, marketing and merchandising staffs in a single location adjacent to its Nashville distribution center in early fiscal 1980.

Retail Sector Consolidation

Sold Bonwit Teller
Sold Plymouth Shops
Sold Tate-Brown
Sold Hall-Brown (Knoxville stores only)
Sold McFarlin's
Sold L. Strauss
Provided for closing a number of variety store locations

Ralph H. Bowles
Executive Vice President
General Manager—Retail Sector

The area of greatest contraction during fiscal 1979 was Genesco's retail sector. In addition to Bonwit Teller and Plymouth Shops, which have already been mentioned, Genesco sold two small men's specialty store operations and a portion of a third, and closed or provided for the closing of a number of S. H. Kress stores.

Kress, a variety store chain, is under intense competition from major discounters. Responding to this competition, Kress is closing variety store locations threatened by the discounters, while simultaneously starting a new division: Post Drugs. The first in what is planned to be a chain of drug stores opened in July of 1979 in Houston, Texas. Eight to ten more stores are scheduled to open in fiscal 1980, and another ten to twenty locations are in negotiations.

The Post stores will be small—under 8,000 square feet—and initially they will be located in Houston. Houston's rapid growth provides the opportunity to establish a new chain. And, as Ralph Bowles, the general manager of the Retail Sector, notes, the existing Kress organization has the ability to buy for and manage every aspect of these stores except prescription drugs. Licensed pharmacists will be responsible for this function. As the number of Kress variety stores continues to decline, Post plans to expand to make up the lost volume.

The remaining retailing operations include Henri Bendel, a single women's specialty store, and six men's specialty store groups.

Business Segment Information

	In Thousands	1979	1978	1977	1976	1975
Sales to Unaffiliated Customers:	Footwear:					
	Shoes and accessories	**$414,761**	$ 411,482	$ 374,134	$ 399,534	$ 373,226
	Raw materials	**42,545**	35,800	36,367	40,550	34,024
	Total footwear	**457,306**	447,282	410,501	440,084	407,250
	Men's apparel:					
	Tailored clothing	**100,725**	98,024	82,639	75,726	79,244
	Jeans and slacks	**73,092**	80,245	71,203	79,751	67,646
	Total men's apparel	**173,817**	178,269	153,842	155,477	146,890
	Retailing:					
	Specialty	**72,617**	77,177	76,650	75,962	73,667
	Variety	**145,462**	152,413	150,609	156,636	152,447
	Total retailing	**218,079**	229,590	227,259	232,598	226,114
	Ongoing operations	**849,202**	855,141	791,602	828,159	780,254
	Divested operations	**143,723**	193,210	223,185	233,231	234,544
	Totals	**$992,925**	$1,048,351	$1,014,787	$1,061,390	$1,014,798
Intersegment Sales (not included above):	Footwear	**$ 701**	$ 591	$ 910	$ 1,280	$ 770
	Men's apparel	**3,983**	5,242	6,346	4,786	4,660
	Divested operations	**50**	600	2,387	2,043	2,056
	Totals	**$ 4,734**	$ 6,433	$ 9,643	$ 8,109	$ 7,486
Operating Income (loss):	Footwear	**$ 23,720**	$ 30,958	$ 18,957	$ 51,248	$ 37,888
	Men's apparel	**8,471**	10,233	4,706	5,835	(1,014)
	Retailing:					
	Specialty	**1,139**	2,233	1,944	2,940	3,415
	Variety	**4,781**	7,011	6,705	9,707	8,152
	Total retailing	**5,920**	9,244	8,649	12,647	11,567
	Corporate expenses	**(8,689)**	(7,708)	(8,958)	(12,518)	(12,814)
	Interest expense	**(24,479)**	(21,286)	(18,646)	(17,787)	(24,951)
	Operating income–ongoing operations	**4,943**	21,441	4,708	39,425	10,676
	Divested operations	**1,332**	(2,077)	(6,525)	1,826	(4,997)
	Totals	**$ 6,275**	$ 19,364	$ (1,817)	$ 41,251	$ 5,679
Assets:	Footwear	**$147,185**	$ 142,876	$ 124,520	$ 131,729	$ 123,717
	Men's apparel	**64,820**	63,118	65,898	59,097	65,338
	Retailing:					
	Specialty	**25,044**	25,492	26,200	29,853	29,578
	Variety	**63,453**	57,822	53,375	56,580	58,117
	Total retailing	**88,497**	83,314	79,575	86,433	87,695
	Corporate	**47,659**	42,780	70,505	75,350	89,123
	Divested operations	**11,966**	94,865	116,415	137,036	135,203
	Totals	**$360,127**	$ 426,953	$ 456,913	$ 489,645	$ 501,076

Figures for 1975-1978 have been reclassified for divested operations and to include hosiery in the footwear segment.

By the end of fiscal 1979, the company had substantially improved its financial condition, as shown by the stronger balance sheet. It should also be noted that most of this contraction and consolidation took place during the latter half of the fiscal year. Thus, the benefits from many of the savings produced by this effort will first begin to show up in the fiscal 1980 results.

The success of these efforts to date does not mean, however, that Phase II is complete. The United States economy appears to be entering a recessionary period, and the need for lean, tight operations will be greater than ever. Accordingly, every operation will continue to be measured against the company's return on assets standard. Every expenditure will be evaluated to determine if it is absolutely necessary. And a further reduction in corporate overhead is now in progress.
At the same time, the company will expand those operations producing high rates of return as rapidly as possible.

The overall goal of Phase I and Phase II is to lay the foundation for a lean, efficient organization whose operations are positioned to produce a good return for the company's shareholders.

Independent Accountants' Report

To the Board of Directors and
Stockholders of Genesco Inc.

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of earnings and accumulated deficit, of additional paid-in capital and of changes in financial position present fairly the financial position of Genesco Inc. and its subsidiaries at July 31, 1979 and 1978, and the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis after restatement for the change, with which we concur, in the method of accounting for U. S. income taxes as described in Note 1 to the consolidated financial statements. Our examinations of these statements were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Price Waterhouse & Co.

First American Center
Nashville, Tennessee 37238

August 21, 1979

Consolidated Balance Sheet

July 31	1979	1978
Assets		
CURRENT ASSETS		
Cash	**$ 12,371,000**	$ 20,576,000
Receivables (Note 3)	**24,537,000**	27,574,000
Inventories (Note 4)	**197,687,000**	213,471,000
Prepaid expenses	**1,440,000**	2,064,000
Current assets of operations being divested (Note 5)	**6,191,000**	30,734,000
Total Current Assets	**242,226,000**	294,419,000
Investments and long-term receivables (Note 6)	**17,891,000**	14,339,000
Plant, equipment and capitalized lease rights (Note 7)	**98,350,000**	102,451,000
Deferred note expense	**1,141,000**	1,435,000
Investment in excess of equity of acquired companies	**–0–**	4,115,000
Fixed assets of operations being divested (Note 8)	**519,000**	10,194,000
Total Assets	**$360,127,000**	$426,953,000

Liabilities and Stockholders' Equity	1979	1978
CURRENT LIABILITIES		
Notes payable (Note 9)	**$ 12,000,000**	$ 61,850,000
Current payments on long-term debt	**8,920,000**	8,447,000
Current payments on capitalized lease obligations	**6,445,000**	8,068,000
Accounts payable and accrued liabilities	**75,347,000**	87,035,000
Provision for operations being divested (Note 12)	**14,462,000**	21,678,000
Total Current Liabilities	**117,174,000**	187,078,000
Long-term debt (Note 10)	**92,456,000**	89,427,000
Subordinated commitment to foreign finance subsidiary (Note 11)	**12,383,000**	–0–
Capitalized lease obligations (Note 13)	**25,089,000**	37,235,000
Provision for operations being divested (Note 12)	**19,728,000**	24,567,000
Deferred credits to income	**2,599,000**	4,542,000
Stockholders' equity (Note 14):		
Preferred stock	**100,499,000**	100,429,000
Common stock	**13,108,000**	13,100,000
Additional paid-in capital	**60,769,000**	60,849,000
Accumulated deficit	**(36,315,000)**	(42,647,000)
Treasury stock, at cost	**(28,681,000)**	(28,681,000)
Employee stock purchase accounts	**(18,682,000)**	(18,946,000)
Total Stockholders' Equity	**90,698,000**	84,104,000
Total Liabilities and Stockholders' Equity	**$360,127,000**	$426,953,000

The accompanying Notes are an integral part of these Financial Statements.

Consolidated Earnings and Accumulated Deficit

Years ended July 31	1979	1978
Net sales	**$992,925,000**	$1,048,351,000
Cost of sales	**672,812,000**	705,740,000
Gross margin	**320,113,000**	342,611,000
Selling, general and administrative expenses	**292,157,000**	302,960,000
Interest expense	**24,479,000**	21,286,000
Other income	**2,798,000**	999,000
Operating income (loss):		
Ongoing operations	**4,943,000**	21,441,000
Divested operations	**1,332,000**	(2,077,000)
Provision for divestments and retail store closings (Note 12)	**(7,320,000)**	–0–
Pretax earnings (loss)	**(1,045,000)**	19,364,000
Income taxes (Note 15)	**6,990,000**	8,353,000
Nonconsolidated companies earnings (loss)	**70,000**	(285,000)
Earnings (loss) before discontinued operations and extraordinary credit	**(7,965,000)**	10,726,000
Excess provision for future losses of discontinued operations (Note 12)	**14,297,000**	–0–
Earnings before extraordinary credit	**6,332,000**	10,726,000
Extraordinary credit—U.S. federal income tax (Note 15)	**–0–**	4,210,000
Net Earnings	**6,332,000**	14,936,000
Accumulated deficit at beginning of year	**(42,647,000)**	(57,583,000)
Accumulated Deficit at End of Year	**$ (36,315,000)**	$ (42,647,000)
Earnings (loss) per common share:		
Primary:		
Before discontinued operations and extraordinary credit	**$ (.91)**	$ .57
Before extraordinary credit	**$ .22**	$ .57
Net earnings	**$ .22**	$ .90
Fully diluted:		
Before discontinued operations and extraordinary credit	**$ (.85)**	$ .53
Before extraordinary credit	**$ .21**	$ .53
Net earnings	**$ .21**	$ .84

Consolidated Additional Paid-In Capital

Years ended July 31	1979	1978
Balance at beginning of year	**$ 60,849,000**	$ 59,588,000
Conversion of preferred stock	**223,000**	1,516,000
Sales price in excess of par value of common shares issued	**–0–**	72,000
Expenses relating to capital stock issuances	**(8,000)**	(32,000)
Increase in liquidating value of preferred stock	**(295,000)**	(295,000)
Balance at End of Year	**$ 60,769,000**	$ 60,849,000

The accompanying Notes are an integral part of these Financial Statements.

Consolidated Changes in Financial Position

Years ended July 31	1979	1978
Sources of Working Capital		
Earnings (loss) before discontinued operations and extraordinary credit	**$ (7,965,000)**	$10,726,000
Excess provision for future losses of discontinued operations	**14,297,000**	–0–
Extraordinary credit—U. S. federal income tax	**–0–**	4,210,000
Depreciation and amortization	**14,247,000**	15,031,000
Equity in nonconsolidated companies:		
Genesco Financial Corporation	**(2,781,000)**	(2,711,000)
Other nonconsolidated companies	**(70,000)**	285,000
Write-down of assets of operations being divested	**5,920,000**	–0–
Other charges (credits) to earnings not requiring funds	**(115,000)**	324,000
Working capital provided by operations	**23,533,000**	27,865,000
Plant and equipment sales	**25,401,000**	3,618,000
Additions to capitalized lease obligations	**–0–**	1,689,000
Sale of Charles Jourdan	**13,117,000**	–0–
Other sources of working capital	**500,000**	1,191,000
Totals	**$62,551,000**	$34,363,000

Uses of Working Capital	1979	1978
Other changes in investments and long-term receivables	**$ 2,569,000**	$ 2,059,000
Items affecting provision for operations being divested	**3,194,000**	3,888,000
Long-term debt paid or charged against working capital	**9,891,000**	8,449,000
Reduction in capitalized lease obligations	**12,147,000**	10,242,000
Additions to plant, equipment and capitalized lease rights	**13,119,000**	17,724,000
Acquisition of Tennessee Ravenwood Properties, Inc.	**3,920,000**	–0–
Totals	**44,840,000**	42,362,000
Increase (Decrease) in Working Capital	**$17,711,000**	$ (7,999,000)

Years ended July 31	1979	1978
Increase (Decrease) in Components of Working Capital		
Cash	**$ (8,205,000)**	$ (30,859,000)
Receivables	**(3,037,000)**	4,468,000
Inventories	**(15,784,000)**	14,440,000
Prepaid expenses	**(624,000)**	(469,000)
Current assets of operations being divested	**(24,543,000)**	(20,827,000)
Total current assets	**(52,193,000)**	(33,247,000)
Notes payable	**(49,850,000)**	(19,600,000)
Current payments on long-term debt	**473,000**	(149,000)
Current payments on capitalized lease obligations	**(1,623,000)**	(725,000)
Accounts payable and accrued liabilities	**(11,688,000)**	10,626,000
Provision for operations being divested	**(7,216,000)**	(15,400,000)
Total current liabilities	**(69,904,000)**	(25,248,000)
Increase (Decrease) in Working Capital	**$ 17,711,000**	$ (7,999,000)

The accompanying Notes are an integral part of these Financial Statements.

Notes to Consolidated Financial Statements

Note 1 Summary of Accounting Policies

Basis of Consolidation

The consolidated financial statements include the accounts of the Company and all domestic and Canadian subsidiaries except Genesco Financial Corporation (GFC). Nonconsolidated subsidiaries are carried at cost adjusted for undistributed earnings or losses since acquisition. Income before taxes of GFC is included in the consolidated earnings statement as a reduction of interest expense with the related income tax included in income taxes.

Inventories

Inventories are stated at the lower of cost or market determined, in wholesaling and manufacturing companies, principally on the first-in, first-out method. Inventories of retail companies are determined by the retail method.

Plant, Equipment and Capitalized Lease Rights

Plant, equipment and capitalized lease rights are depreciated or amortized over the estimated useful life of the related assets. Depreciation and amortization expense is computed principally by the straight-line method.

Retirement Plans

Substantially all of the Company's employees are covered by pension plans. The Company funds pension costs accrued as determined by its independent actuaries.

Earnings (Loss) per Common Share

Primary earnings (loss) per share are computed by dividing net earnings (loss), adjusted for preferred dividend requirements, by average common shares and common share equivalents outstanding. In computing fully diluted earnings (loss) per share, earnings and average shares are appropriately adjusted for outstanding dilutive securities.

Foreign Currency Translation

Current assets (excluding inventories) and liabilities of foreign subsidiaries are translated into U. S. dollars at exchange rates in effect at the balance sheet date. Inventories and noncurrent assets are translated at historical exchange rates. Income, costs and expenses are translated at average rates during the year except that historical rates are used to translate depreciation and cost of sales. Aggregate exchange losses for the years ended July 31, 1979 and 1978 amounted to $201,000 and $274,000, respectively.

Accounting Change

There have been no U. S. federal income taxes paid or payable by the Company for a number of years. Moreover, at July 31, 1979 the Company had net operating loss carryforwards of $66,433,000 available to offset future taxable income. In addition, $64,255,000 of expenses have been reflected in the financial statements but have not yet been deducted for tax purposes. The tax benefits of these items are shown as extraordinary credits when deemed to be realized.

Earnings of foreign subsidiaries are includable in U. S. taxable income based on actual or constructive dividend remittances. Under U. S. federal tax law, the Company is permitted to claim foreign tax credits with the result that, if it were in a taxpaying position, it would incur U. S. income tax as a result of dividend remittances only to the extent the effective foreign tax rate is less than the U. S. statutory rate. However, U. S. tax law provides that loss carryforwards are to be utilized before foreign tax credits.

Note 1 Summary of Accounting Policies, Continued

In originally reporting its 1978 results, the Company computed its provision for U. S. income taxes and the corresponding extraordinary benefit of loss carryforwards by imputing tax at the statutory rate on dividend remittances from foreign subsidiaries and reflecting the elimination of that tax by utilization of loss carryforwards. Following this method, the Company projected an unreasonable effective worldwide tax rate for fiscal 1979. The Company has changed its method of computing the U. S. tax provision, and the corresponding extraordinary benefit of the loss carryforward, to recognize in the provision currently the benefit of foreign tax credits which would result from the related remittances in absence of loss carryforwards. The Company believes this latter method is preferable because it results in a tax provision more indicative of normal operations and eliminates an indicated charge to current income for taxes in excess of the amount which would be charged in absence of the loss carryforwards. In effecting this change, the Company has also recognized investment tax credits currently generated which would be utilized in absence of the loss carryforwards. This change has been given retroactive effect in 1978 by decreasing the provisions for U. S. income taxes and the extraordinary credit by $1,664,000, with no effect on net earnings.

Note 2 Acquisition of Tennessee Ravenwood Properties, Inc.

On September 11, 1978 the Company acquired from the Genesco Retirement Trust all of the capital stock of Tennessee Ravenwood Properties, Inc. ("Ravenwood"), a lessor of real property to the Company, for a cash purchase price of $3,920,000. The acquisition was accounted for as a purchase and the total purchase price was allocated to the real property acquired. Results of operations from the date of acquisition are included in the Consolidated Earnings Statement. If the results of operations of Ravenwood had been included for all of the years ended July 31, 1979 and 1978, results of operations would have been as follows:

	1979	1978
Earnings (loss) before discontinued operations and extraordinary credit	**$ (7,947,000)**	$10,583,000
Earnings before extraordinary credit	**6,314,000**	10,583,000
Net earnings	**6,314,000**	14,660,000
Earnings (loss) per share:		
Primary:		
Before discontinued operations and extraordinary credit	**$ (.91)**	$ .56
Before extraordinary credit	**$ .22**	$ .56
Net earnings	**$ .22**	$ .88
Fully diluted:		
Before discontinued operations and extraordinary credit	**$ (.85)**	$ .52
Before extraordinary credit	**$ .21**	$ .52
Net earnings	**$ .21**	$ .82

Note 3 Receivables

Genesco sells most of its accounts receivable to Genesco Financial Corporation (GFC) at the outstanding balance less a 10% reserve for uncollectible accounts. The receivable amounts in the consolidated balance sheet are net of amounts financed with GFC.

	1979	1978
Trade accounts receivable	**$119,320,000**	$ 144,918,000
Miscellaneous receivables	**2,992,000**	3,329,000
Total receivables	**122,312,000**	148,247,000
Allowance for bad debts	**(4,997,000)**	(4,251,000)
Allowance for cash discounts and returns	**(887,000)**	(955,000)
Net receivables before financing	**116,428,000**	143,041,000
Sold to GFC	**(91,891,000)**	(115,467,000)
Net Receivables	**$ 24,537,000**	$ 27,574,000

Note 4 Inventories

	1979	1978
Raw materials	**$ 33,902,000**	$ 23,534,000
Work in process	**23,074,000**	23,395,000
Finished goods	**42,935,000**	49,771,000
Retail merchandise	**97,776,000**	116,771,000
Total Inventories	**$197,687,000**	$213,471,000

Note 5 Current Assets of Operations Being Divested

	1979	1978
Accounts receivable, net of allowance for bad debts and cash discounts	**$ 3,929,000**	$ 14,516,000
Sold to GFC	**(3,366,000)**	(11,378,000)
Net accounts receivable	**563,000**	3,138,000
Inventories	**5,628,000**	27,596,000
Total Current Assets of Operations Being Divested	**$ 6,191,000**	$ 30,734,000

Note 6 Investments and Long-Term Receivables

	1979	1978
Equity in Genesco Financial Corporation (GFC)	**$31,283,000**	$28,502,000
Less advance by GFC to Trustee of Genesco employee stock plans	**16,000,000**	16,000,000
Net equity in GFC	**15,283,000**	12,502,000
Investments and advances:		
Nonconsolidated subsidiaries	**879,000**	237,000
Other investments and long-term receivables	**1,729,000**	1,600,000
Totals	**$17,891,000**	$14,339,000

On March 30, 1979 the Company completed the sale of its investment in Charles Jourdan and affiliated companies, manufacturers and retailers of women's fashion footwear based in Europe. The proceeds of $19,800,000 from the sale were used to pay certain European obligations of nonconsolidated subsidiaries and to reduce

Note 6 Investments and Long-Term Receivables, Continued

short-term indebtedness of the Company under its revolving credit agreement. See Note 9 "Short-Term Borrowing Arrangements."

The condensed consolidated balance sheet of Genesco Financial Corporation and Subsidiary at July 31, 1979 and 1978 follows:

Assets	**1979**	1978
Cash	**$ 1,512,000**	$ 1,490,000
Customer obligations purchased from Genesco less contract reserve withheld	**95,257,000**	126,845,000
Notes receivable—Trustee of Genesco employee stock plans	**16,000,000**	16,000,000
Notes receivable—other	**156,000**	258,000
Deferred note expense	**355,000**	422,000
Total Assets	**$113,280,000**	$145,015,000

Liabilities and Stockholder's Equity	**1979**	1978
Notes payable	**$ 5,000,000**	$ 34,000,000
Accrued liabilities	**1,997,000**	2,513,000
Long-term debt	**75,000,000**	80,000,000
Stockholder's equity	**31,283,000**	28,502,000
Total Liabilities and Stockholder's Equity	**$113,280,000**	$145,015,000

Note 7 Plant, Equipment and Capitalized Lease Rights

	1979	1978
Plant and equipment:		
Land	**$ 8,387,000**	$ 1,098,000
Buildings and building equipment	**16,782,000**	8,121,000
Machinery, furniture and fixtures	**53,579,000**	69,786,000
Construction in progress	**3,651,000**	3,737,000
Improvements to leased property	**39,374,000**	46,052,000
Capitalized lease rights:		
Land	**3,788,000**	2,408,000
Buildings	**40,790,000**	44,296,000
Machinery, furniture and fixtures	**34,877,000**	45,703,000
Total plant, equipment and capitalized lease rights	**201,228,000**	221,201,000
Accumulated depreciation and amortization:		
Plant and equipment	**(64,818,000)**	(77,399,000)
Capitalized lease rights	**(38,060,000)**	(41,351,000)
Totals	**$ 98,350,000**	$102,451,000

Note 8
Fixed Assets of Operations Being Divested

	1979	1978
Plant and equipment:		
Land	**$ –0–**	$ 138,000
Buildings and building equipment	**–0–**	1,382,000
Machinery, furniture and fixtures	**858,000**	5,063,000
Construction in progress	**–0–**	19,000
Improvements to leased property	**597,000**	3,367,000
Capitalized lease rights:		
Land	**–0–**	1,576,000
Buildings	**–0–**	11,681,000
Machinery, furniture and fixtures	**81,000**	732,000
Total fixed assets of operations being divested	**1,536,000**	23,958,000
Accumulated depreciation and amortization:		
Plant and equipment	**(983,000)**	(9,804,000)
Capitalized lease rights	**(34,000)**	(3,960,000)
Totals	**$ 519,000**	$10,194,000

Note 9
Short-Term Borrowing Arrangements

At July 31, 1979, commitments for loans up to $47,000,000 and $28,200,000 were available to Genesco and GFC, respectively, under revolving credit agreements expiring March 3, 1980, with 13 U. S. banks and one Canadian bank. Interest is payable quarterly at the higher of ½ of 1% above the Corporate Base Rate effective at the First National Bank of Chicago or 105% of the CD rate (three-week moving average interest rate on three-month certificates of deposit) plus a commitment fee of ½ of 1% on the daily unused portion of the commitment. Compensating balance arrangements provide that the Company will endeavor to maintain collected funds on deposit in each bank which, over a calendar year, average 10% of the bank's commitment plus 10% of the average borrowings under the commitment.

The revolving credit agreements require mandatory prepayments on borrowings and mandatory reductions of banks' commitments in an amount equal to the net cash proceeds as defined in the agreements from sales of assets, liquidations or other dispositions of certain operations.

Genesco's revolving credit agreement requires the Company to maintain working capital of at least $100,000,000; a current ratio of not less than 1.5 to 1; Tangible Net Worth of at least $77,000,000 plus any increases in Tangible Net Worth from sale of operations and extraordinary (excluding credits for income taxes) or non-recurring transactions and net increases from adjustments to the provision for operations being divested ($81,942,000 required at July 31, 1979); and a ratio of total liabilities less subordinated debt to the sum of Tangible Net Worth and subordinated debt of not more than 4.5 to 1. GFC's agreement requires it, among other things, to maintain an Effective Net Worth (stockholder's equity plus subordinated debt) of at least $36,000,000; a ratio of debt (excluding subordinated debt) to Effective Net Worth of not more than 4 to 1; and the sum of cash and net receivables equal to at least 110% of total liabilities. At July 31, 1979 all of these requirements were met.

A $2,500,000 line of credit with a European bank is available to Genesco provided borrowings thereunder, together with borrowings under the revolving credit agreement, do not exceed $47,000,000. The line can be withdrawn at any time at the bank's option. Borrowings are usually for sixty or ninety day periods at interest rates based on the Eurodollar interbank rate. No minimum deposit is required at any time.

At July 31, 1979, Genesco and GFC had short-term loans outstanding of $12,000,000 and $5,000,000, respectively under the revolving credit agreements at an interest rate of 12.25%. During the year ended July 31, 1979 borrowings by

Note 9 Short-Term Borrowing Arrangements, Continued

Genesco and GFC averaged $79,123,000 at a weighted average interest rate of 11.41%. The maximum borrowings at any month end were $125,000,000. At July 31, 1979, unused commitments amounted to $35,000,000 and $23,200,000 for Genesco and GFC, respectively.

Note 10 Long-Term Debt

	1979	1978
4.75% convertible subordinated note due 1982 with annual payments of $25,000; convertible into common stock at $25.00 per share	**$ 325,000**	$ 350,000
5.00% notes due 1984 with annual payments of $2,000,000	**22,000,000**	24,000,000
5.25% notes due 1981 with annual payments of $938,000	**5,925,000**	6,864,000
10.375% senior sinking fund notes due December 1984 with annual payment of $4,900,000 (less unamortized discount of $181,000; 1978—$227,000)	**55,119,000**	59,973,000
6.50% convertible subordinated debentures (series A) due 1987; convertible into common stock at $41.67 per share	**1,172,000**	1,172,000
6.50% convertible subordinated debentures (series B) due 1987; convertible into common stock at $45.45 per share	**4,244,000**	4,244,000
5.25% first mortgage notes (series A) due April 1, 1989 in quarterly installments of $491,000 including principal and interest (less unamortized discount of $3,019,000)	**11,904,000**	–0–
Notes payable incurred by companies prior to acquisition due in varying amounts to 1984 at various interest rates from 4% to 7%	**687,000**	1,271,000
Total long-term debt less unamortized debt discount	**101,376,000**	97,874,000
Current portion	**(8,920,000)**	(8,447,000)
Totals	**$ 92,456,000**	$89,427,000

The 5.25% first mortgage notes (series A) were issued in 1964 by Tennessee Ravenwood Properties, Inc. ("Ravenwood") for the purpose of acquiring from the Company and leasing-back certain real properties. Ravenwood was acquired by the Company on September 11, 1978. The notes are secured by a mortgage on such real property owned by Ravenwood as well as by an assignment of Ravenwood's rights as lessor under a lease to Genesco of the mortgaged real property. Partial prepayments on the notes are required when the Company exercises its option under the lease to purchase properties abandoned for economic reasons. Upon acquisition of Ravenwood by the Company, the notes, which had an aggregate face value of $17,181,000, were assigned a present value of $13,446,000 using an imputed interest rate of 10.5%. The resulting discount is being amortized over the life of the notes.

Amendments to certain of the Company's loan agreements reduced the percentage of Consolidated Net Current Assets to Consolidated Funded Indebtedness the Company is required to maintain from 150% to 130% through July 30, 1980. At July 31, 1979 the Company's Consolidated Net Current Assets were 166% of Consolidated Funded Indebtedness.

Note 11 Subordinated Commitment to Foreign Finance Subsidiary

In 1968 Genesco World Apparel, Ltd. ("GWAL"), a nonconsolidated Virgin Islands finance subsidiary, issued $15,000,000 principal amount of 5½% guaranteed (subordinated) debentures due 1988 of which $12,383,000 is currently outstanding. The debentures are guaranteed by the Company and are convertible into the Company's common stock at $38 per share. The Company's guarantee is subordinated to the prior payment in full of all present or future senior indebtedness.

GWAL is required to redeem $700,000 of the debentures each March 1 until 1988 when the then remaining principal becomes due. Debentures converted to common stock or otherwise acquired may be credited against the amount otherwise required to be redeemed. At July 31, 1979 sufficient debentures had been converted to common stock to satisfy the redemption requirements until March 1, 1981.

GWAL's principal asset is a note receivable from Genesco International Corporation ("GIC"), a wholly-owned nonconsolidated subsidiary of the Company. Prior to March 30, 1979, GIC's principal asset was its ownership (through a wholly-owned subsidiary) of most of the capital stock of Charles Jourdan and affiliated companies (see Note 6). After the sale of such capital stock and the resulting payments of certain European obligations and repayment to the Company of advances the Company had made to GIC, GIC was left without meaningful economic substance. As a result of these transactions, the Company has reflected the obligation of GWAL as a subordinated liability in the consolidated financial statements.

Note 12 Provision for Operations Being Divested and Retail Store Closings

In August 1977 the Board of Directors of Genesco approved a plan to divest its women's and children's apparel segment and certain other operations and established a provision for costs expected to be incurred in carrying out the plan.

The Company has divested all but one of the 22 operations approved in 1977 for divestment. The total costs incurred to date or expected to be incurred in the future will be less than the reserve established in 1977 to cover such losses. Therefore, the Company has restored $17,910,000 to income in July 1979 of which $14,297,000 relates to its women's and children's apparel segment and $3,613,000 relates to other operations.

Transactions relating to divestments and retail store closings which affected fiscal 1979 pretax earnings were as follows:

	Provision for Future Losses	Loss (Gain) on Disposal of Assets	Total
Loss on closing four footwear plants	$ 550,000	$ 1,205,000	$ 1,755,000
Loss on closing or providing for closing 125 Kress and Elmore variety stores ($8,846,000 in 4th quarter)	7,221,000	4,061,000	11,282,000
Loss on closing men's underwear and pajama divisions	3,353,000	688,000	4,041,000
Gain on disposal of Bonwit Teller and Plymouth Shops women's specialty retailing divisions	8,885,000	(16,481,000)	(7,596,000)
Loss on sale of L. Strauss & Co. men's specialty retailing division	–0–	459,000	459,000
Excess 1977 provision for operations being divested and retail store closings other than women's and children's segment	(3,613,000)	–0–	(3,613,000)
Other losses	–0–	992,000	992,000
Total Provision for Divestments and Retail Store Closings	$16,396,000	$ (9,076,000)	$ 7,320,000

Note 12 Provision for Operations Being Divested and Retail Store Closings, Continued

The amount of the provision included in the consolidated balance sheet (including amounts for certain long-term commitments which are classified as long-term liabilities) and the transactions for the years ended July 31, 1979 and 1978 are as follows:

	1979	1978
Balance at beginning of year	**$ 46,245,000**	$64,597,000
Additional provision for future losses (see above)	**16,396,000**	–0–
Excess provision for future losses of women's and children's apparel segment	**(14,297,000)**	–0–
Other changes:		
Operating gains (losses):		
Women's and children's apparel segment (1979 sales—$43,225,000)	**(3,153,000)**	(6,366,000)
Other operations	**1,184,000**	(3,232,000)
Other costs	**(12,185,000)**	(8,754,000)
Balance at End of Year	**$ 34,190,000**	$46,245,000

Proceeds from divestments of women's and children's operations amounted to $22,760,000 during the year ended July 31, 1979. Such amount has not been reduced by expenses related to the divestment of those operations.

Note 13 Capitalized Lease Obligations

Future minimum lease payments under leases capitalized at July 31, 1979, together with the present value of the minimum lease payments follow:

Years ending July 31	
1980	$ 9,028.000
1981	6,166,000
1982	4,894,000
1983	2,736,000
1984	2,768,000
Later years	23,460,000
Total minimum payments	49,052,000
Amount representing interest	(17,518,000)
Present value of minimum payments	31,534,000
Current portion	(6,445,000)
Total	$ 25,089,000

Note 14
Stockholders' Equity

Distinguishing characteristics of capital stock

Class (1)	Shares Authorized	Issued at July 31 Shares 1979	Shares 1978	Amount in thousands 1979	Amount in thousands 1978	Common Convertible Ratio	No. of Votes
$4.50 Cumulative Convertible Preferred	82,368	16,955	16,955	$ 1,696	$ 1,696	3.75	*
Subordinated Cumulative Convertible Preference							
$4.25 Series A	68,943	600	600	60	60	-	3
$6.00 Series B	161,981	121,139	121,144	12,114	12,114	2.40(2)	2
$6.00 Series C	269,291	125,887	125,813	12,589	12,582	2.20(2)	2
Subordinated Serial Preferred (Cumulative)							
$2.30 Series 1	131,826	89,286	89,319	3,572	3,608	.83	1
$3.30 Series 2	395,626	165,436	165,436	9,099	8,768	-	1
$4.75 Series 3	105,875	80,058	80,058	8,006	8,006	2.11	2
$4.75 Series 4	103,000	65,648	65,648	6,565	6,565	1.52	1
$4.75 Series 5	122,500	98,474	98,474	9,847	9,847	1.61	1
$1.50 Subordinated Cumulative Preferred	5,000,000	105	105	3	3	-	1
Employees' Subordinated Convertible Preferred	5,000,000	1,231,633	1,239,318	36,948	37,180	1.00(3)	1
Total Preferred Stock				100,499	100,429		
Common Stock ($1 Par Value)	20,000,000	13,107,783	13,100,059	13,108	13,100	-	1

(1) Each class is listed in descending order of preference in liquidation except that Series 1 and 2 Preferred Stock rank equally in liquidation.

(2) Also exchangeable for $100 principal amount of 6.50% Convertible Subordinated Debentures. At July 31, 1979 such exchanges were prohibited. See "Restrictions on Dividends and Redemptions of Capital Stock" and Note 19.

(3) Also convertible into one share of Subordinated Cumulative Preferred Stock.

* The $4.50 Preferred Stock normally has no voting rights; however, as long as the Company is in arrears with respect to mandatory redemption requirements or is four quarters in arrears with respect to the payment of dividends, holders of such stock have the right to elect two persons to the Board of Directors. Such right was most recently exercised at the Annual Meeting held December 4, 1978.

Cumulative Convertible Preferred Stock
Stated value—$100 per share; liquidation value—$100 per share plus accumulated dividends; optional redemption price—$101.50 per share. The Company is required to redeem 998 shares each December 31 at $100 per share. Such redemptions with respect to 1977 and 1978 were not made and are in arrears ($199,600).

Subordinated Cumulative Convertible Preference Stock
Stated value for each series—$100 per share; liquidation value for each series—$100 per share plus accumulated dividends; redemption price for each series—$100 per share. The Company is required to offer to redeem on each December 31 and June 30, respectively, pro rata from holders of Series B and Series C, 5% of the shares of such stock originally issued. The Company may, at its option and on a cumulative basis, credit against such redemption requirement shares which have been converted into Common Stock or purchased or otherwise redeemed and not previously credited. At July 31, 1979, sufficient shares had been converted, purchased or otherwise redeemed to satisfy the redemption requirements until December 31, 1979 and June 30, 1983, respectively.

Note 14 Stockholders' Equity, Continued

Subordinated Serial Preferred Stock
Stated values for Series 1 and 2—$41.20 and $49.00, respectively; liquidation values for Series 1 and 2—$40.00 and $55.00, respectively, plus accumulated dividends; redemption prices for Series 1 and 2—$40.00 and $55.00, respectively. Stated values for Series 3, 4 and 5—$100 per share; liquidation values for Series 3, 4 and 5—$100 per share plus accumulated dividends. Redemption price for Series 3 and 5—$100 per share; for Series 4—$102 per share. At July 31, 1979, the Company was in arrears with respect to mandatory redemptions of Series 2 and 5 in the amounts of $9,098,980 and $9,800,000, respectively.

Subordinated Cumulative Preferred
Stated and liquidation values and redemption price—$30 per share.

Employees' Subordinated Convertible Preferred
Stated and liquidation value—$30 per share. Shares are not redeemable.

Common Stock
Common shares reserved at July 31, 1979 for conversion of senior securities and for employee stock plans amounted to 2,518,655 and 728,500, respectively.

Restrictions on Dividends and Redemptions of Capital Stock
The Company does not currently have any earned or capital surplus (as defined by the Tennessee General Corporation Act) available for the payment of dividends.

The Company's charter provides that for each class of preferred stock no shares may be redeemed or otherwise acquired for value, if there are dividend or redemption arrearages on any senior or equally ranked stock. Therefore, the Company is unable to redeem or permit exchanges or conversions of its preferred stock.

The Company is also prohibited by its revolving credit agreement from paying dividends on and redeeming shares of any class of stock except preferred stock in aggregate annual amounts not exceeding $200,000.

The Company is currently restricted by certain of its long-term loan agreements from paying dividends on and redeeming shares of any class of stock, except fixed dividends on and mandatory redemptions of shares of $4.50 Preferred Stock in aggregate annual amounts not exceeding $200,000. The most stringent of such restrictions at this time will not permit dividends or redemptions unless immediately thereafter Consolidated Net Tangible Assets are at least 275% of Consolidated Funded Indebtedness. At July 31, 1979, the Company was $60,611,000 short of this requirement. In addition, preferred dividends of $15,442,000 and mandatory redemptions of $19,099,000 were in arrears. Therefore, Consolidated Net Tangible Assets were $95,152,000 less than would have been required in order to pay the dividend and redemption arrearages at July 31, 1979.

The Company's debt instruments also contain other restrictions on dividends and redemptions which at July 31, 1979 were not as restrictive; however, certain of such restrictions would also have prohibited dividends and redemptions.

Dividend arrearages

Class of Stock	Date Dividends Paid to	Arrearage at July 31, 1979 Per Share	Aggregate
$4.50 Cumulative	October 31, 1976	$12.37	$ 210,000
$4.25 Series A	January 31, 1975	19.13	11,000
$6.00 Series B	January 31, 1975	27.00	3,259,000
$6.00 Series C	January 31, 1975	27.00	3,361,000
$2.30 Series 1	January 31, 1975	10.35	924,000
$3.30 Series 2	January 31, 1975	14.85	2,457,000
$4.75 Series 3	January 31, 1975	21.38	1,711,000
$4.75 Series 4	January 31, 1975	21.38	1,403,000
$4.75 Series 5	January 31, 1975	21.38	2,105,000
$1.50 Subordinated	January 31, 1975	6.75	1,000
Total			$15,442,000

Changes in the shares of the Company's capital stock

	Common		Preferred	
	Issued	Treasury	Employees'	Other
Issued at July 31, 1977	13,030,145	483,690	1,291,726	763,391
Return of escrowed shares	–0–	3,173	–0–	–0–
Issuances	17,500	–0–	–0–	164
Conversion of securities	52,414	–0–	(52,408)	(3)
Issued at July 31, 1978	13,100,059	486,863	1,239,318	763,552
Issuances	–0–	–0–	–0–	74
Conversion of securities	7,724	–0–	(7,685)	(38)
Issued at July 31, 1979	13,107,783	486,863	1,231,633	763,588
Less treasury stock	486,863		301,677	1,860
Outstanding at July 31, 1979	12,620,920		929,956	761,728

Note 15 Income Taxes

Income tax expense (after restatement for the accounting change discussed in Note 1) is composed of the following:

	1979	1978
U.S. federal—operations	**$ –0–**	$ 4,210,000
Canadian:		
Operations	**4,966,000**	3,309,000
Dividends from Canadian subsidiaries	**1,535,000**	491,000
State	**489,000**	343,000
Total income taxes	**6,990,000**	8,353,000
Extraordinary credit—U. S. federal	**–0–**	(4,210,000)
Total Income Tax Expense	**$6,990,000**	$4,143,000

Note 15 Income Taxes, Continued

The effective tax rate on pretax earnings was 43.8% in 1978. The items creating the differences between this effective rate and the 48% federal statutory rate are:

Provision for taxes at 48%	$9,295,000
Tax credit of nonconsolidated subsidiaries included in consolidated U. S. federal income tax return	(748,000)
Variation between Canadian and U. S. tax rate	(338,000)
Foreign taxes paid on dividends	491,000
Investment tax credits	(550,000)
Miscellaneous	203,000
Total Income Taxes	$8,353,000

The Company's tax returns have been examined by the Internal Revenue Service through 1974 and all differences settled. The Company has net operating loss carryforwards available to offset future taxable income as follows:

Expiration Date	Amount
July 31, 1980	$37,288,000
July 31, 1984	10,837,000
July 31, 1985	18,308,000
Total Net Operating Loss Carryforwards	$66,433,000

In addition, the Company has recorded for financial statement purposes expenses amounting to $64,255,000 which will be deductible for federal income tax purposes in future years. These include depreciation, sale and leaseback transactions, profits on installment sales, deductions related to accounts receivable as well as provisions made for divestments and retail store closings.

Note 16 Rentals and Lease Commitments

For purposes of the following presentation, a distinction has been made between noncapitalized "financing" leases and "other" leases. A "financing" lease is a lease with a term covering 75% or more of the estimated useful life of the property or with lease payments sufficient for the lessor to recover its investment plus interest.

Rental expense of ongoing operations for the two years ended July 31 was as follows:

	1979	1978
Financing leases:		
Minimum rentals	**$4,502,000**	$6,902,000
Contingent rentals	**277,000**	218,000
Sublease rentals	**(351,000)**	(460,000)
Total financing leases	**4,428,000**	6,660,000
Other leases:		
Minimum rentals	**26,947,000**	24,299,000
Contingent rentals	**2,558,000**	3,082,000
Sublease rentals	**(1,757,000)**	(539,000)
Total other leases	**27,748,000**	26,842,000
Total ongoing operations	**32,176,000**	33,502,000
Divested operations	**4,810,000**	6,427,000
Totals	**$36,986,000**	$39,929,000

Minimum rental commitments payable in future periods under noncancellable long-term leases (reduced by sublease rentals) are as follows:

Fiscal Year	Financing Leases	Other Leases	Total
Ongoing operations:			
1980	$ 3,292,000	$ 17,132,000	$ 20,424,000
1981	3,068,000	16,995,000	20,063,000
1982	2,853,000	13,200,000	16,053,000
1983	2,552,000	9,748,000	12,300,000
1984	2,457,000	8,347,000	10,804,000
1985-1989	8,926,000	32,019,000	40,945,000
1990-1994	2,342,000	14,566,000	16,908,000
1995-1999	204,000	1,403,000	1,607,000
After 1999	653,000	–0–	653,000
Total ongoing operations	26,347,000	113,410,000	139,757,000
Divested operations	14,811,000	24,313,000	39,124,000
Totals	$41,158,000	$137,723,000	$178,881,000

In addition to minimum rentals, some leases provide for the Company to pay real estate taxes and other expenses and, in certain cases, additional rentals based on sales. Renewal options exist for most long-term leases.

The present values of minimum lease commitments under noncapitalized financing leases at July 31 are as follows:

	1979	1978
Ongoing operations:		
Retail real property	**$18,657,000**	$23,562,000
Wholesale & manufacturing real property	**1,238,000**	2,095,000
Other property	**309,000**	446,000
Total present value of minimum lease commitments	**20,204,000**	26,103,000
Present value of sublease rentals	**(295,000)**	(842,000)
Total ongoing operations	**19,909,000**	25,261,000
Divested operations (net of sublease rentals)	**11,365,000**	43,669,000
Totals	**$31,274,000**	$68,930,000

The range and weighted average interest rates used in the computation of the above present values are as follows:

	Range	Average
Retail real property	2.0-10.6%	5.1%
Wholesale & manufacturing real property	3.5-6.5%	4.7%
Other	5.0-5.5%	5.0%
Present value of sublease rentals	2.0-14.7%	9.0%

The Company is required by Accounting Series Release 225 issued by the Securities and Exchange Commission to retroactively capitalize, in accordance with Statement of Financial Accounting Standards No. 13, certain leases entered into prior to January 1, 1977, unless to do so would result in a probable violation of an existing loan agreement. At July 31, 1979 such retroactive capitalization of leases would have caused the Company's Tangible Net Worth to be less than that required

Note 16 Rentals and Lease Commitments, Continued

by its revolving credit agreement (see Note 9 "Short-Term Borrowing Arrangements"), although the Company expects to be able to do so in fiscal 1980. If such leases had been accounted for as capital leases, net earnings for the years ended July 31, 1979 and 1978 would have been increased by $5,830,000 (primarily as a result of divestments and retail store closings) and $54,000, respectively. The effect on its balance sheet at July 31 would have been as follows:

	1979	1978
Increase in assets	**$11,669,000**	$36,834,000
Increase in liabilities	**19,329,000**	50,324,000
Decrease in stockholders' equity	**7,660,000**	13,490,000

The above amounts for 1978 include amounts applicable to leases with Tennessee Ravenwood Properties, Inc. (Ravenwood), a real estate company purchased by the Company from the Genesco Retirement Trust on September 11, 1978 (see Note 2).

Note 17 Retirement Plans

Pension expense amounted to $6,592,000 in 1979 and $5,412,000 in 1978, including amortization of prior service cost over 30 years. At the latest valuation date, actuarially computed vested benefits exceeded the total pension fund assets and the balance sheet accrual at July 31, 1979 by $25,783,000 and the unfunded actuarial liability was $41,381,000.

Note 18 Employee Stock Plans

The stockholders of the Company have approved several stock purchase or option plans enabling employees to purchase shares of common or employees' preferred stock. These are the Key Executives Stock Option Plan and Employees Incentive Plans A and B.

The Company has 728,500 shares of common stock authorized to be sold upon exercise of nonqualified stock options granted to key executive employees under the Key Executive Stock Option Plan. Options may not be granted at a price less than market value on the date of grant. Options granted under this plan become exercisable at the rate of 25% per year beginning one year from date of grant and expire 10 years from date of grant. At July 31, 1979, options granted in December 1975 to purchase 156,500 shares at $5.125 per share were outstanding.

Under Employee Incentive Stock Plan A, payments on stock purchase accounts are to be made by payroll deductions or other periodic payments and, upon a resumption of the common stock dividend, are also to be made by the Company through compensatory payments. Payments under Employee Incentive Stock Plan B are similar except employees make only limited payments and then only in specified circumstances. Employee stock purchase accounts under all plans amounted to $18,682,000 at July 31, 1979 and $18,946,000 at July 31, 1978 and were secured by 886,324 employees' preferred shares and 28,458 common shares at July 31, 1979. No further sales of shares under plans A and B are contemplated.

Note 19 Pending Legal Proceedings

The Company and certain other retailers are defendants in a number of treble damage actions brought as class actions on behalf of various charge account customers of the defendants. These actions allege that defendants fixed retail prices of women's clothing in various cities in violation of the antitrust laws.

The Company is the defendant in a class action charging it with publishing false and misleading financial statements and reports and, as a result, inflating the price of the Company's common stock. The complaint seeks damages in an unspecified amount. The Court has limited the class to common stockholders who purchased their stock between August 21, 1972 and August 27, 1973 and who held such stock as of the latter date.

The Company, GFC and certain former employees of the Company are defendants in a class action against them, a former customer of the Company and others. The suit alleges violations of the Federal securities laws and that the Company and GFC were "controlling persons" of the former customer and are thereby liable for its actions.

The Company is the defendant in an action brought by the former owners of a business acquired by the Company in 1968 in exchange for shares of the Company's common stock. The complaint alleges that the price of the Company's common stock was inflated as a result of false and misleading financial statements and reports issued by the Company and seeks recision of the exchange and damages for lost profits (alleged to be approximately $10,000,000).

The Company is the defendant in three separate actions brought by owners of Series B and Series C preference stock, two of which are class actions. All of the suits allege that the Company improperly suspended the right to exchange such stock for 6½% convertible subordinated debentures. The complaints seek damages or an injunction requiring the Company to reinstate the exchange privilege. The Court tried the two class actions together and decided the issue of liability against the Company, except with respect to certain Series B and C stockholders. The issue of damages or other relief has not yet been tried, and the Company and both plaintiffs are appealing the Court's decision as to liability. The third such action against the Company, brought by certain holders of Series B stock who elected to exclude themselves from the class action, contains additional allegations that the Company published false and misleading financial statements and reports upon which such stockholders relied in deferring the exercise of their exchange privilege. The Court in the third action granted a motion for partial summary judgment, finding the Company liable for suspending the exchange privilege, but has not yet tried the matter of damages or other relief. The Company is also the defendant in an action brought by certain holders of Series 2 preferred stock alleging that the Company has wrongfully refused to make sinking fund deposits aggregating $9,098,980. The complaint seeks an order requiring such deposits to be made and directing the Company to pay accrued and unpaid dividends and to redeem such stock or, alternatively, that compensatory damages be awarded. If the Company were required by the Courts either to reinstate the exchange privilege relating to the Series B and Series C preference stock, or to make sinking fund deposits, redemptions or dividend payments with respect to the Series 2 preferred stock, lenders under certain of the Company's debt instruments might assert that such action constituted an event of default which, in turn, could result in acceleration of the maturity of substantially all of the Company's outstanding indebtedness.

The Company has been named a defendant in various other actions which, in the opinion of management, involve claims of lesser significance.

Management of the Company is unable to predict the outcome or to estimate with any degree of certainty any potential loss which may result from the above described litigation.

Note 20 Business Segment Information

Sales to unaffiliated customers, intersegment sales, operating income (loss) and identifiable assets of the Company's business segments for the two years ended July 31, 1979 are included in the 5 year "Business Segment Information" table on page 8. Intersegment sales are made at prices comparable to sales to unaffiliated customers.

Depreciation and amortization of and additions to plant, equipment and capitalized lease rights for the two years ended July 31 were:

	1979	1978
Depreciation and amortization:		
Footwear	**$ 5,993,000**	$ 6,470,000
Men's apparel	**1,588,000**	2,194,000
Specialty retailing	**922,000**	1,232,000
Variety retailing	**2,335,000**	1,959,000
Corporate	**1,766,000**	1,309,000
Divested operations	**1,643,000**	1,867,000
Totals	**$14,247,000**	$15,031,000
Additions to plant, equipment and capitalized lease rights:		
Footwear	**$ 7,677,000**	$ 8,402,000
Men's apparel	**2,763,000**	2,415,000
Specialty retailing	**790,000**	1,090,000
Variety retailing	**514,000**	581,000
Corporate	**530,000**	2,416,000
Divested operations	**845,000**	2,820,000
Totals	**$13,119,000**	$17,724,000

Note 21 Quarterly Financial Information (Unaudited)

In Thousands	3 Months October	3 Months January	3 Months April	3 Months July	Fiscal Year
Net sales					
1979	$283,186	$277,675	$231,888	$200,176	$ 992,925
1978	260,654	280,003	243,493	264,201	1,048,351
Gross margin					
1979	94,207	89,772	77,169	58,965	320,113
1978	85,256	94,592	77,407	85,356	342,611
Operating income (loss):					
Ongoing operations					
1979	4,361	4,683	(414)	(3,687)	4,943
1978	4,811	11,959	1,840	2,831	21,441
Divested operations					
1979	2,672	(290)	(927)	(123)	1,332
1978	3,168	188	(1,005)	(4,428)	(2,077)
Earnings (loss) before discontinued operations and extraordinary credit					
1979	1,176	4,534	(3,759)	(9,916)	(7,965)
1978	4,262	6,023	(323)	764	10,726
Earnings (loss) before extraordinary credit					
1979	1,176	4,534	(3,759)	4,381	6,332
1978	4,262	6,023	(323)	764	10,726
Net earnings (loss)					
1979	$ 2,648	$ 7,030	$ (6,429)	$ 3,083	$ 6,332
1978	7,395	10,080	(323)	(2,216)	14,936
Primary earnings (loss) per common share:					
Before discontinued operations and extraordinary credit					
1979	$ .02	$ .28	$ (.37)	$ (.85)	$ (.91)
1978	.27	.40	(.09)	(.01)	.57
Before extraordinary credit					
1979	.02	.28	(.37)	.28	.22
1978	.27	.40	(.09)	(.01)	.57
Net earnings (loss)					
1979	.14	.48	(.58)	.17	.22
1978	.52	.72	(.10)	(.24)	.90

Note 22 Current Replacement Cost Information (Unaudited)

The Company has estimated the current replacement cost of inventories and productive capacity (generally plant, equipment and capitalized lease rights excluding land and construction in progress) as of July 31, 1979 and July 31, 1978 and the approximate effect such replacement cost would have had on cost of sales and depreciation expense for the years then ended. The Company has not estimated replacement cost on divested operations.

The Company believes the replacement cost for inventories is approximately the same as historical cost; however, replacement cost of sales, cost of productive capacity and related depreciation are higher than historical costs. Replacement cost information is based on assumptions and estimates that have limitations due to the subjective nature of the estimating process. Since the methods used do have limitations and are experimental, this information should be viewed with a degree of caution and not viewed as being indicative of future financial results of the Company.

Statistical replacement cost information will be contained in the Company's annual report to the Securities and Exchange Commission on Form 10-K.

Securities Information—Preferred Stock

All classes of the Company's preferred stock are traded in the over-the-counter market. All preferred dividends are eighteen quarters in arrears except the $4.50 Cumulative Convertible Preferred which is eleven quarters in arrears. The following table shows the bid and asked prices for each quarter of fiscal 1979 and 1978 on those classes of preferred which were quoted. All remaining classes were virtually untraded and no meaningful price information could be obtained.

	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter	
	Bid	Asked	Bid	Asked	Bid	Asked	Bid	Asked
$4.50 Cumulative								
1979	NQ	NQ	40	–	40	–	42/40	50/47
1978	49/47	–	45/43	50/47	–	47	NQ	NQ
$6.00 Series B								
1979	NQ	NQ	31/28	34/32	28	32	35/34	38
1978	30	35	26	30	26	–	NQ	NQ
$6.00 Series C								
1979	34	39	31/28	34/32	28	–	35/34	38
1978	30	35	26	36/30	26	–	NQ	NQ
$2.30 Series 1								
1979	NQ	NQ	10/9	13/12	9	12	9/7	11/9
1978	15/13	18/16	12	15	NQ	NQ	NQ	NQ
$3.30 Series 2								
1979	NQ	NQ	11/10	–	10	–	10	–
1978	18/12	–	13	–	NQ	NQ	NQ	NQ

Information for this chart furnished by the National Quotation Bureau. Where two numbers are shown they are the high and low for the period.

Securities Information—Common Stock

	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter	
	High	Low	High	Low	High	Low	High	Low
1979	6⅞	4	5¼	3¾	5⅜	4¼	5¾	4⅛
1978	4⅝	3⅜	5⅝	3½	8⅛	5⅛	7½	5½

Years ended July 31	**1979**	1978	1977	1976	1975
Net sales	**$992,925**	$1,048,351	$1,014,787	$1,061,390	$1,014,798
Cost of sales	**672,812**	705,740	693,085	686,394	679,080
Gross margin	**320,113**	342,611	321,702	374,996	335,718
Selling, general and administrative expense	**292,157**	302,960	304,500	316,132	306,817
Interest expense	**24,479**	21,286	18,646	17,787	24,951
Other income (loss)	**2,798**	999	(373)	174	1,729
Operating income (loss):					
Ongoing operations	**4,943**	21,441	4,708	39,425	10,676
Divested operations	**1,332**	(2,077)	(6,525)	1,826	(4,997)
Provision for divestments and retail store closings	**(7,320)**	–0–	(33,224)	–0–	–0–
Income taxes	**6,990**	8,353	45,287	20,510	3,804
Nonconsolidated companies	**70**	(285)	(262)	(1,186)	(6,943)
Earnings (loss) before discontinued operations and extraordinary credit	**(7,965)**	10,726	(80,590)	19,555	(5,068)
Excess provision for future losses of discontinued operations	**14,297**	–0–	–0–	–0–	–0–
Loss from discontinued operations	**–0–**	–0–	(55,193)	(3,625)	(9,359)
Earnings (loss) before extraordinary credit	**6,332**	10,726	(135,783)	15,930	(14,427)
Extraordinary credit—U. S. federal income tax	**–0–**	4,210	–0–	–0–	–0–
Net earnings (loss)	**6,332**	14,936	(135,783)	15,930	(14,427)
Primary earnings (loss) per common share:					
Before discontinued operations and extraordinary credit	**$ (.91)**	$ .57	$ (6.71)	$1.28	$ (.68)
Before extraordinary credit	**$ .22**	$ .57	$(11.12)	$1.00	$(1.42)
Net earnings (loss)	**$ .22**	$ .90	$(11.12)	$1.00	$(1.42)

All figures are in thousands except amounts per share.

This discussion should be read in conjunction with both the Five Year Operating Results on the preceding page and the Business Segment Information on page 8. The discussion with respect to individual segments includes only the ongoing operations of that segment.

Net Sales

The decrease of $55,426,000 (5.3%) in total net sales in 1979 compared to 1978 was due primarily to the divestment of certain operations (see Note 12). Divested operations accounted for $49,487,000 of the decrease. In 1979 sales of ongoing operations decreased $5,939,000 (0.7%) over 1978.

Footwear sales increased $10,024,000 (2.2%) in 1979 due principally to increased prices. Unit sales of footwear at the retail level were slightly less than last year while unit sales at the wholesale level experienced a substantial decline due principally to a reduction in orders from volume retailers. Hosiery sales, which are included in the footwear segment, increased in 1979 compared to 1978, reflecting higher prices as well as an increase in units sold resulting from penetration of new markets.

Sales of the men's apparel segment decreased $4,452,000 (2.5%) in 1979 compared to 1978 primarily because of decreases in sales of jeans and slacks. These decreases, which were in both dollar sales and unit sales, are attributed primarily to a decline in orders from volume retailers. Sales of tailored clothing increased (although unit sales were down slightly) reflecting an ongoing program to increase sales of branded merchandise which sells for higher prices than unbranded.

In 1979 sales of the specialty retailing segment decreased $4,560,000 (5.9%) over 1978, reflecting a decrease in the number of stores operated by ongoing divisions. Variety retailing sales decreased $6,951,000 (4.6%) this year compared to last year reflecting the closing of 47 Kress and Elmore stores since July 31, 1978. Sales of ongoing variety stores were up slightly.

Total net sales for 1978 reflect only a three percent increase over 1977 primarily because of the divestment in 1978 of certain operations as part of a program approved in August 1977. Sales of ongoing operations increased eight percent due principally to increases in unit sales of men's branded footwear, tailored clothing and slacks. These increases reflect consumer acceptance of the Company's branded products. Specialty and variety retailing sales increased only one percent due to the closing of unprofitable stores.

Gross Margin

Gross margin in 1979 decreased $22,498,000 (6.6%) over 1978 and the gross margin percentage decreased from 32.7% in 1978 to 32.2% in 1979, in both cases due primarily to divested operations which accounted for $20,839,000 of the decrease (see "Net Sales" above). Gross margin of ongoing operations in 1979 decreased $1,659,000 (0.5%) compared to last year while the gross margin percentage remained the same.

Footwear gross margin increased in 1979 primarily because of increases in selling prices, both at the wholesale and retail levels. Foreign currency translation reduced footwear gross margin by $1,872,000 more in 1979 than in 1978.

Men's apparel gross margin decreased slightly in 1979 compared to 1978 principally because of decreases in sales of jeans and slacks to volume retailers and from costs incurred in closing five jeans and slacks plants. Costs in these areas could not be reduced ratably with the decline in sales volume. Jeans and slacks gross margin was also adversely affected by substantial markdowns of fashion sportswear inventory. Men's tailored clothing gross margin increased in 1979 reflecting the Company's increasing emphasis on branded merchandise.

Specialty retailing gross margin declined slightly in 1979 compared to 1978 primarily because of a decrease in the number of stores operated by ongoing divisions and because of a reduction in initial mark-on due to competitive factors combined with a slight increase in markdowns. Variety retailing gross margin declined both in dollar amount and as a percentage of sales as a result of sales volume reductions and increased inventory shrinkage both resulting from the store closings referred to in "Net Sales" above.

The improvement in gross margin in 1978 compared to 1977 reflects the effect of increased wholesale and retail sales as well as increased wholesale margins due primarily to increased emphasis on branded goods in the men's apparel segment. Foreign currency translation losses reduced gross margin by $2,033,000 more in 1978 than in 1977.

Selling, General and Administrative Expenses

While expenses of ongoing operations increased

$6,715,000 (2.2%) in 1979 compared to 1978, total expenses decreased $10,803,000 (3.6%) because of divested operations whose expenses decreased $17,518,000. Footwear expenses in 1979 increased primarily because of increases in expenses directly related to retail sales volume (such as sales commissions and percentage rents) and to opening of additional retail stores. Foreign currency translation reduced footwear expenses by $1,331,000 more in 1979 than in 1978. Men's apparel expenses increased this year compared to last year reflecting royalty payments related to sales of branded merchandise, salesmen's commissions and other sales volume related expenses. Specialty and variety retailing expenses decreased slightly as a result of store closings.

Expenses decreased slightly in 1978 compared to 1977 primarily because of the divestment program approved in August 1977. Foreign currency translation reduced expenses $1,890,000 more in fiscal 1978 than in 1977.

Interest Expense

Interest expense in 1979 compared to 1978 increased $3,193,000 (15.0%). The acquisition of Tennessee Ravenwood Properties, Inc. (see Note 2) accounted for $1,182,000 of the increase. The remaining increase was primarily due to an increase of 37.3% in the Company's short-term borrowing rate from an average rate of 8.3% last year to 11.4% this year, the effect of which was partially offset by a decrease in average borrowings of $19,940,000 (20.1%).

Interest expense increased 14% in fiscal 1978 over fiscal 1977 due to an increase of 24% in average short-term interest rates. Average short-term debt decreased three percent in fiscal 1978; however, long-term debt of GFC increased $30 million in December 1976. Funds from borrowings by GFC are used to purchase customer obligations from Genesco.

Other Income (Expense)

In January 1979 the Company established a provision for losses to be incurred in closing its Bonwit Teller New York City store, selling the remaining Bonwit Teller stores and the Plymouth Shops and closing its men's underwear and pajama divisions. The charge against income to establish this provision is included in the caption "Provision for Divestments and Retail Store Closings." Operating results of these divisions are included in sales, cost of sales and selling, general and administrative expenses. The net amount of these operating results is offset by a credit to other income and by a charge against the provision established in January. This credit is the principal reason for the increase in other income of $1,799,000 (180%) in 1979 compared to 1978.

Provision for Divestments and Retail Store Closings

See Note 12 for an analysis of this provision.

Income Taxes

The reduction of $1,363,000 (16.3%) in income taxes in 1979 compared to 1978 is the result of a $4,210,000 reduction in federal income taxes in U.S. operations being partially offset by an increase of $1,657,000 in Canadian income taxes on operations, an increase of $1,044,000 in Canadian withholding taxes on dividends paid to Genesco Inc. by Canadian subsidiaries and an increase of $146,000 in state income taxes. U.S. federal income taxes were not provided in 1979 primarily because of the availability of currently generated foreign tax credits and investment tax credits to offset U.S. federal income taxes otherwise payable on current U.S. income (see Notes 1 and 15).

The decrease in the tax provision for fiscal 1978 compared to fiscal 1977 is primarily due to the inclusion in the 1977 provision of a write-off of net operating loss carryforward benefits of U.S. operations.

Nonconsolidated Companies

The improvement in 1979 compared to 1978 in operating results of nonconsolidated companies is due to the sale in the third quarter of 1979 of the Company's investment in Charles Jourdan and affiliated companies which permitted the prepayment of certain European debt obligations of other nonconsolidated subsidiaries (see Note 6).

Excess Provision for Future Losses of Discontinued Operations

This is the amount of provision made in 1977 for divestments relating to the Company's women's and children's apparel segment determined in 1979 to be in excess of amounts required for future losses (see Note 12).

Extraordinary Credit—U.S. Federal Income Tax

The extraordinary credit in 1978 reflects utilization of net operating loss carryforwards to offset U.S. federal income taxes otherwise payable. None were utilized in 1979.

Genesco Officers

Chairman
John L. Hanigan

Executive Vice President
General Manager—Retail Sector
Ralph H. Bowles

Executive Vice President
General Manager—Footwear Sector
George Langstaff

Executive Vice President
General Manager—Men's Apparel Sector
Larry B. Shelton

Vice President—Human Resources
Edward F. Carney

Vice President—General Counsel
Thomas B. Clark

Vice President
Deputy General Manager—
Footwear Sector
Dan W. Gregory

Vice President—Acquisitions and Divestments
Leonard K. Guiler

Vice President
Chief Accounting Officer
Jimmie D. White

Vice President—Finance and Treasurer
William S. Wire II

Secretary
William C. O'Connor

Assistant Treasurer
James S. Gulmi

Assistant Secretaries
Charles E. Bain
Willard Sledge

Genesco
Board of Directors

Edward F. Blettner
Former President and
Vice Chairman
The First National Bank of
Chicago

John L. Hanigan
Chairman
Genesco Inc.

Sidney Davidson
Arthur Young Professor of
Accounting
Graduate School of
Business
University of Chicago

Harold K. Johnson
General, U. S. Army,
Retired
Washington, D.C.

John Diebold
Chairman, The Diebold
Group, Inc.
(Management
Consultants)
New York, New York

Edwin H. Rayson
Partner—Kramer,
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